JULY, 1935

The Real Estate ANALYST

DO NOT LOSE YOUR PERSPECTIVE

REAL estate will increase greatly in value in the next few years. This increase will be due to fundamental factors so basic that no factors now on the horizon can greatly disturb them. The rapidity with which this increase will come can be affected, however, by many things, the principal one being the rapidity of general recovery. The expanding of space requirements since the spring of 1933, particularly in the residential field, has been phenomenally rapid. This expansion cannot continue at the rate maintained during the past two years without a greater degree of industrial recovery than we have so far experienced. It seems entirely probable that further gains in general business will be made this fall. If these gains are substantial, real estate will show rapid improvement; if not, the improvement will be slow. Whether the improvement is slow or rapid this winter, will make little difference in the eventual picture.

Improved real estate will increase greatly in value during the next few years due to three causes. These are:

1. Expanding Demand - It is natural that demand for improved real estate should increase again merely as a reaction from the abnormal contraction which took place during the depression. This re-expansion of demand accompanied recovery after each other great depression.

2. An Increasing Replacement Cost - Were the revaluation of the dollar to a 59¢ base the only monetary adjustment made during this depression, we would still believe that over a period of years the effect would be the raising of the general price level by a marked degree; but many other monetary factors have been combined with revaluation until a far higher general price level several years hence is now accepted by practically all students of the subject. An increase in the general price level in the past has always been accompanied by at least as great an increase in the price of construction materials. We are confident that this will again be true. Certainly recovery will also bring higher wages for labor.

3. Limited Supply - During this depression new building has shrunk to record lows. Were it possible to start a building boom tomorrow, the increase in general employment which would result in the building trades, in the building material fields, and in such collateral lines as railroading (during the last boom construction materials accounted for one-fifth of all freight tonnage) would expand the demand for buildings faster than new buildings could be built; and for a number of years at least, the boom would feed on itself. But we are still far from a building boom, and there is little chance that in the near future new building can greatly augment the supply of space at a price which will find a ready market. In the meantime vacancy will be absorbed, rents and values will rise, and real estate will again become profitable.

AVERAGE ADVERTISED DWELLING RENTS 1935

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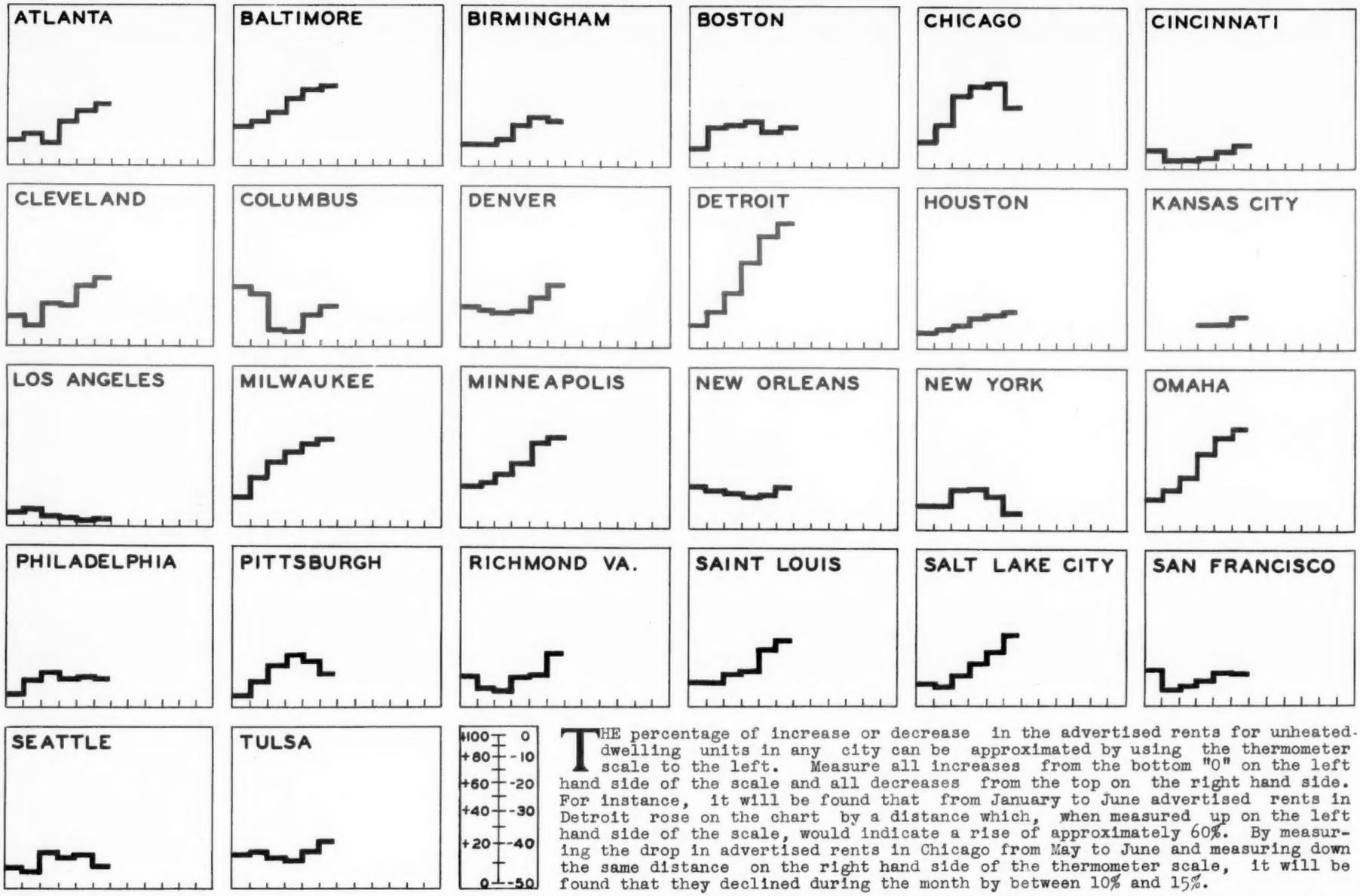


THE percentage of increase or decrease in the advertised rents for unheated dwelling units in any city can be approximated by using the thermometer scale to the left. Measure all increases from the bottom "0" on the left hand side of the scale and all decreases from the top on the right hand side. For instance, it will be found that from January to June advertised rents in Detroit rose on the chart by a distance which, when measured up on the left hand side of the scale, would indicate a rise of approximately 60%. By measuring the drop in advertised rents in Chicago from May to June and measuring down the same distance on the right hand side of the thermometer scale, it will be found that they declined during the month by between 10% and 15%.

ADVERTISED RENTALS ON DWELLING UNITS

THE Real Estate Analyst computes the average advertised rentals of residential units of various types and sizes each month in the twenty-six metropolitan cities listed below. The figures given are average rentals per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city.

It is to be expected that the average of all places advertised for rent will vary considerably from month to month due to the inclusion some months of a larger number of either high or low priced units. That the trend is definitely up in single family dwellings in most cities is clearly indicated by the figures below. At this season of the year it is impossible to separate accurately the heated units from the unheated. This results in a drop in our index of apartment rents which is not actually experienced. As cooler weather returns and "heat" is again mentioned in the advertisements, this will automatically adjust itself. During the summer months our apartment index will be of little value.

The July figures shown are preliminary ones based on the advertisements appearing during the first two weeks of the month. These will be corrected to the final figure in the August issue.

CITY	SINGLE FAMILY							APARTMENTS						
	Jan.	Feb.	Mar.	Apr.	May	June	July	Jan.	Feb.	Mar.	Apr.	May	June	July
Atlanta	$ 5.66	$ 5.74	$ 5.56	$ 6.14	$ 6.47	$ 6.62	$ 6.71	$ 8.42	$ 9.80	$ 9.90	$ 9.65	$ 9.52	$ 9.38	$ 9.52
Baltimore	4.86	4.98	5.19	5.51	5.77	5.86	5.79	10.83	11.27	12.09	12.23	11.79	10.88	10.62
Birmingham	4.43	4.43	4.57	4.85	5.01	4.96	4.79	8.36	8.62	8.63	8.38	8.12	7.93	7.70
Boston	6.04	6.65	6.70	6.85	6.51	6.69	6.68	9.55	11.75	11.36	11.16	10.44	10.12	10.18
Chicago	7.99	8.59	9.86	10.34	10.46	9.21	7.67	11.68	12.32	11.86	11.79	11.49	10.88	10.86
Cincinnati	7.66	7.33	7.33	7.35	7.60	7.83	8.19	10.70	10.82	10.67	10.30	9.93	9.57	9.50
Cleveland	6.93	6.64	7.34	7.29	7.95	8.18	8.20	8.43	9.24	9.84	9.84	9.14	8.26	8.14
Columbus	5.31	5.17	4.35	4.35	4.65	4.88	5.11	9.01	9.09	8.89	9.22	8.40	8.06	7.57
Denver	4.89	4.78	4.72	4.75	5.08	5.39	5.61	9.70	9.88	10.08	10.14	9.76	9.24	9.32
Detroit	5.73	6.02	6.60	7.67	8.59	9.13	8.61	9.60	10.08	10.47	10.37	10.36	10.00	9.66
Houston	6.44	6.53	6.69	6.96	7.02	7.18	7.22	8.68	8.38	8.63	8.66	8.13	7.20	7.34
Kansas City	-	-	-	4.51	4.51	4.64	4.78	-	-	-	7.05	6.65	6.24	6.22
Los Angeles	8.43	8.52	8.33	8.29	8.12	8.13	7.97	10.23	9.76	10.38	11.18	11.28	10.85	10.10
Milwaukee	6.94	7.60	8.21	8.58	8.91	9.08	8.81	9.32	9.70	9.97	9.83	9.91	9.70	9.53
Minneapolis	4.89	4.97	5.19	5.39	5.94	6.08	5.97	8.89	9.09	9.17	8.81	8.21	8.31	8.06
New Orleans	4.87	4.79	4.70	4.65	4.69	4.85	5.19	8.23	8.22	8.73	8.21	7.52	7.54	8.01
New York	12.20	12.28	13.25	13.32	12.91	11.98	11.63	17.29	16.87	16.41	16.77	16.91	17.24	17.00
Omaha	4.69	4.86	5.13	5.73	6.15	6.43	6.34	10.30	10.29	10.33	10.18	10.45	10.17	9.92
Philadelphia	5.38	5.58	5.76	5.58	5.67	5.63	5.65	13.66	14.57	14.61	14.22	13.79	13.55	13.05
Pittsburgh	6.29	6.72	7.28	7.67	7.43	6.99	6.56	8.81	9.43	9.88	10.21	9.91	9.24	8.81
Richmond	5.82	5.50	5.42	5.80	5.86	6.45	6.71	-	9.56	9.57	9.99	10.23	9.89	9.35
Saint Louis	5.69	5.64	5.89	5.97	6.55	6.82	7.25	8.62	8.66	8.76	9.07	9.19	9.19	9.12
Salt Lake City	4.44	4.39	4.66	4.90	5.18	5.56	5.69	9.22	9.08	9.20	8.99	9.08	8.92	8.99
San Francisco	7.15	6.50	6.62	6.78	7.07	7.03	6.94	11.36	10.92	10.67	10.78	10.67	10.52	10.58
Seattle	5.02	4.97	5.33	5.28	5.30	5.05	5.04	10.10	10.24	10.21	10.05	9.69	9.51	9.62
Tulsa	5.85	5.97	5.77	5.68	5.92	6.21	6.53							

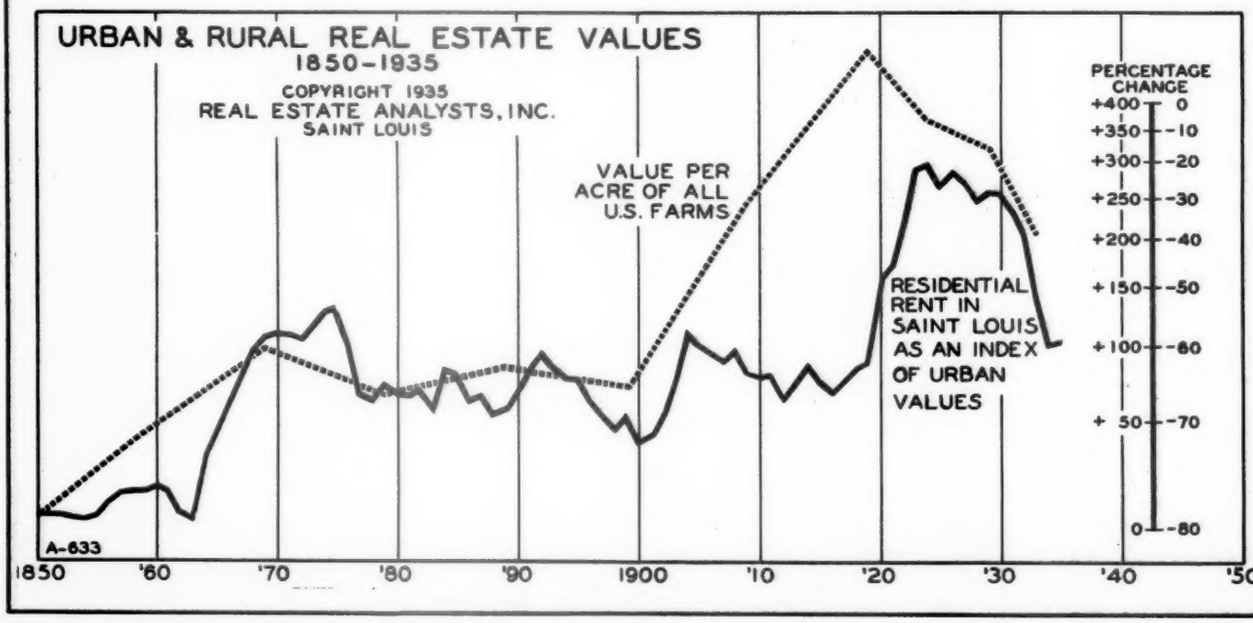
THE REAL ESTATE CYCLE FOR AGRICULTURAL LANDS AND ITS EFFECT ON URBAN PROPERTY

ALL of the charts showing real estate cycles which have appeared in the Real Estate Analyst thus far have covered urban property only. We have long intended to develop similar charts for rural real estate but have shied away from the tremendous job of trying to collect and study real estate figures from a sufficient number of rural counties to get a representative picture. We have now started on this problem, which we believe will take several years to complete. As the study progresses, however, we shall try to arrive at such conclusions as seem warranted by the material available at the time of publication.

A start can be made on the problem of the fluctuations in the value of farms per acre from the reports of the United States Census. Starting with the census of 1850, each enumeration has compiled by counties the total value of all land and buildings in farms. Of course, these figures have the fundamental limitation that they are based on the owner's estimate, which at times is probably too optimistic; and at others, too pessimistic.

The chart below shows a comparison of the value of farms per acre in all counties of the United States in contrast with the fluctuation of advertised residential rents in Greater St. Louis. We believe that for all practical purposes the line showing the fluctuation in rents could also be used to represent in at least a general fashion the fluctuations in residential values in developed metropolitan areas of the United States. In other words, this chart gives us a rough comparison of the fluctuations in value of urban and rural real estate over an eighty-year period.

It is unfortunate, of course, that the rural value line can only be fixed each decade, as it gives us no indication of the fluctuations between enumerations. For instance, it will be noticed from the chart that in 1900 farm values per acre were only slightly less than they were in 1890. We are positive that the gently sloping line does not represent what actually happened during this ten-year interval. All of the general



information we can accumulate would indicate that from 1890 to about 1897 values were dropping very rapidly. During the next few years, however, they recovered materially, bringing the 1900 figure slightly below the 1890 figure.

There is quite a probability that a somewhat similar explanation could be given for the period from 1860 to 1870. We rather doubt whether the increase in the value of farm properties was as gradual as this line would indicate. We think the increase probably was very slow until some time in 1862 or 1863, and that from then on the increase was quite rapid. Our reason for this belief is that the greenback inflation in the United States started in 1862, raising the general price level very rapidly during the next few years.

It will be noticed from the chart that prior to 1900 there was at least a rough agreement between rural real estate prices and urban real estate prices. Shortly after 1900, however, the disagreement becomes quite marked. Rural property experienced a very striking increase in value not shared by urban property until 1920 or 1925. Rural property had started a decline after this wild inflation of values before the wild inflation of urban values started. Why this discrepancy?

The chart at the bottom of this page may give us some indication. The rise in value of farm properties from 1900 to 1920 was apparently due largely to the constant increase in agricultural prices. The value of farm lands depends, just as urban properties do, on the expected net return. As prices of agricultural products rose rapidly, the dollar return per acre increased. The fact that prices of farm lands have gained on prices of agricultural products over the entire period is probably due to the greater efficiency in farming with modern agricultural implements and to the lowered cost of transporting products to markets because of the development of roads and trucks.

In an effort to study the cycles in sales of farm lands, we have secured for all rural counties in Ohio annual figures from 1877 to the present on the number of acres of farm lands changing ownership. The top

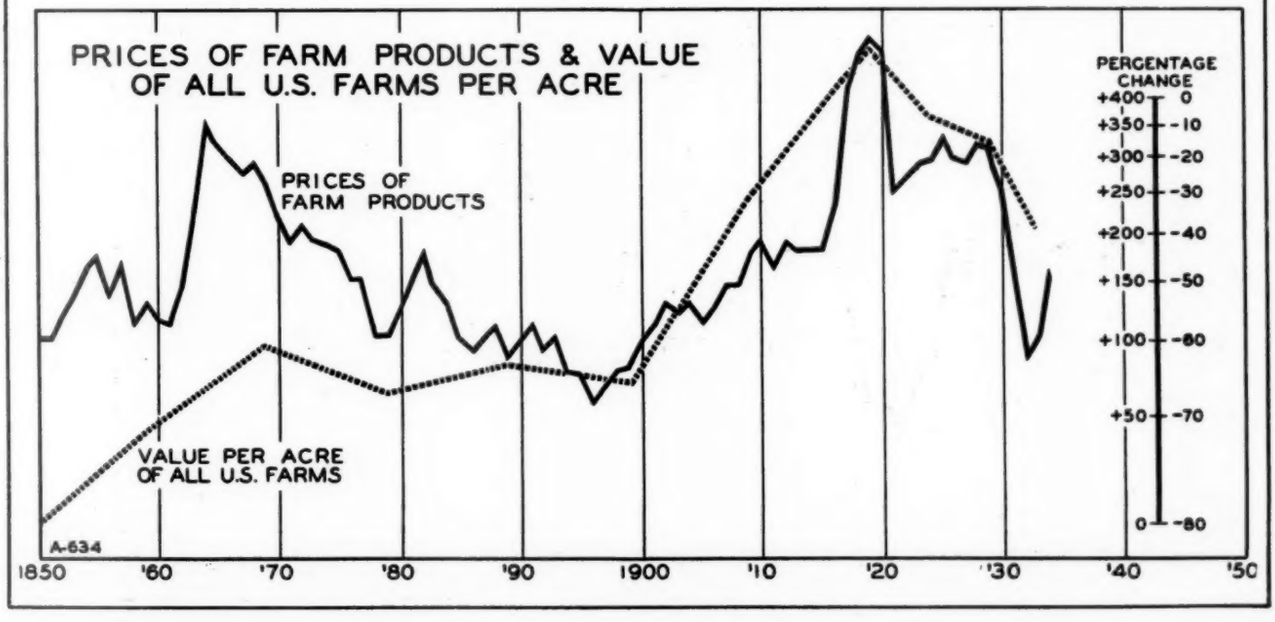
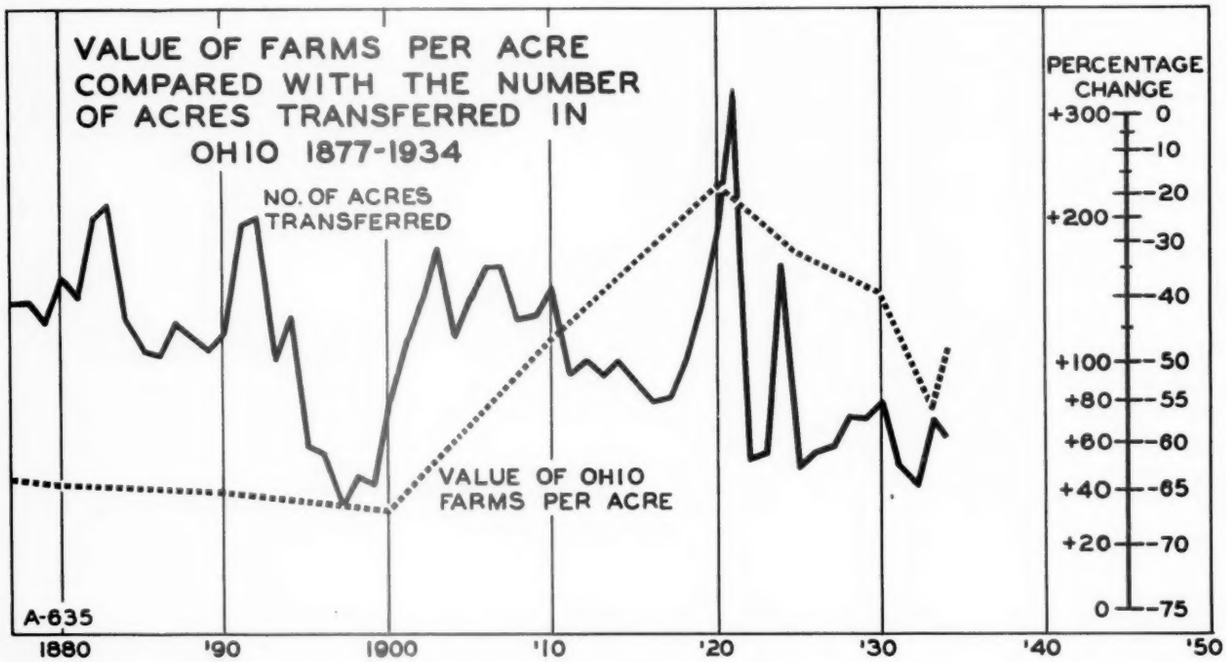
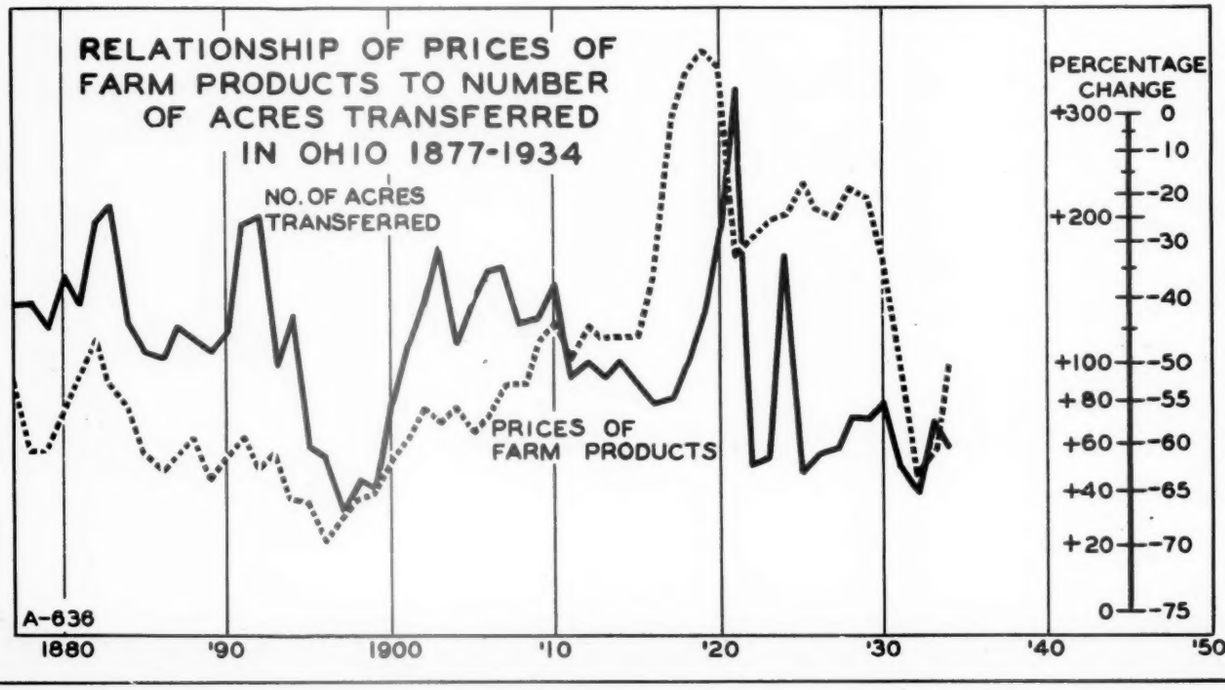


chart on this page shows the number of acres transferred in contrast with the value of farms per acre in Ohio over the same period.

Activity in the buying and selling of farm lands is apparently very erratic and does not seem to follow the general cycles apparent in urban property. If the sharp peaks in 1920 and 1922 are disregarded, there has been a constant downward trend in this line during the past thirty-odd years. The lower chart might give some explanation of the peaks in 1920 and 1922. The 1920 peak was probably caused by the rapid increase in net return per acre. The 1922 peak may have consisted largely of foreclosures after the rapid price deflation in 1920 and 1921.

(continued on page 423)

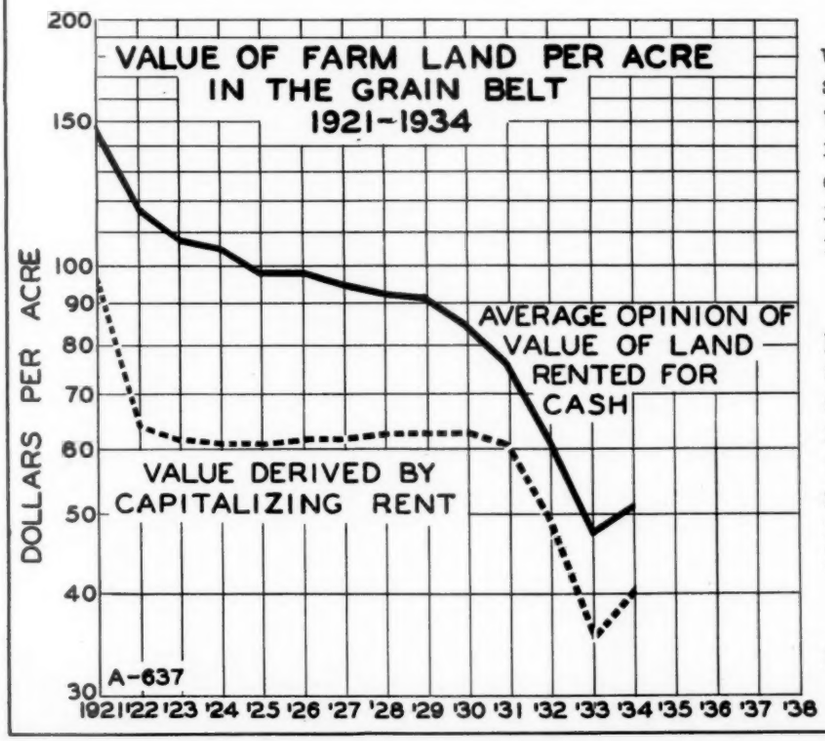




There seems to have been a tendency since the War of overestimating the economic value of farm lands. The United States Department of Agriculture pointed this out in 1928 in an investigation of land values in the Corn Belt, which disclosed that, if the current interest rate on mortgage indebtedness be accepted as a fair capitalization rate, approximately 56% of the 1920 values were based on anticipated future increases in net returns per acre. In the chart at the bottom of this page we show for the states of Minnesota, Missouri, North Dakota, South Dakota, Nebraska, Kansas, and Iowa the average opinion of value per acre of land rented for cash as reported by the government crop reporters in the various counties in contrast with the value of the same ground derived by capitalizing the net rent at the prevailing mortgage interest rates in that territory.

It will be noted that, as the agricultural situation became more acute, the average opinions of value have come closer to the capitalized value arrived at by this second method. It is also quite interesting that the increase in capitalized value from 1933 to 1934 was greater than the increase in the opinions of value as reported by the crop reporters. We strongly suspect that the 1935 figures will show a continuation of these same trends.

The chart at the top of page 425 shows the relationship for the entire United States between voluntary sales and forced sales of farms. The forced sales include mortgage foreclosures, bankruptcies, loss of title by default of contract, all other transfers to avoid foreclosures, and sales for delinquent taxes. It will be noticed that in 1933 forced sales of this type constituted 58% of all changes in farm ownership; while voluntary sales amounted to only 18%. These two items do not total 100, as ownership is also changed by inheritance, gift, and other non-purchase transfers. That tax sales were not responsible primarily for the tremendous peak in forced sales is shown by the supplementary line from 1931 to the present, showing tax sales only.

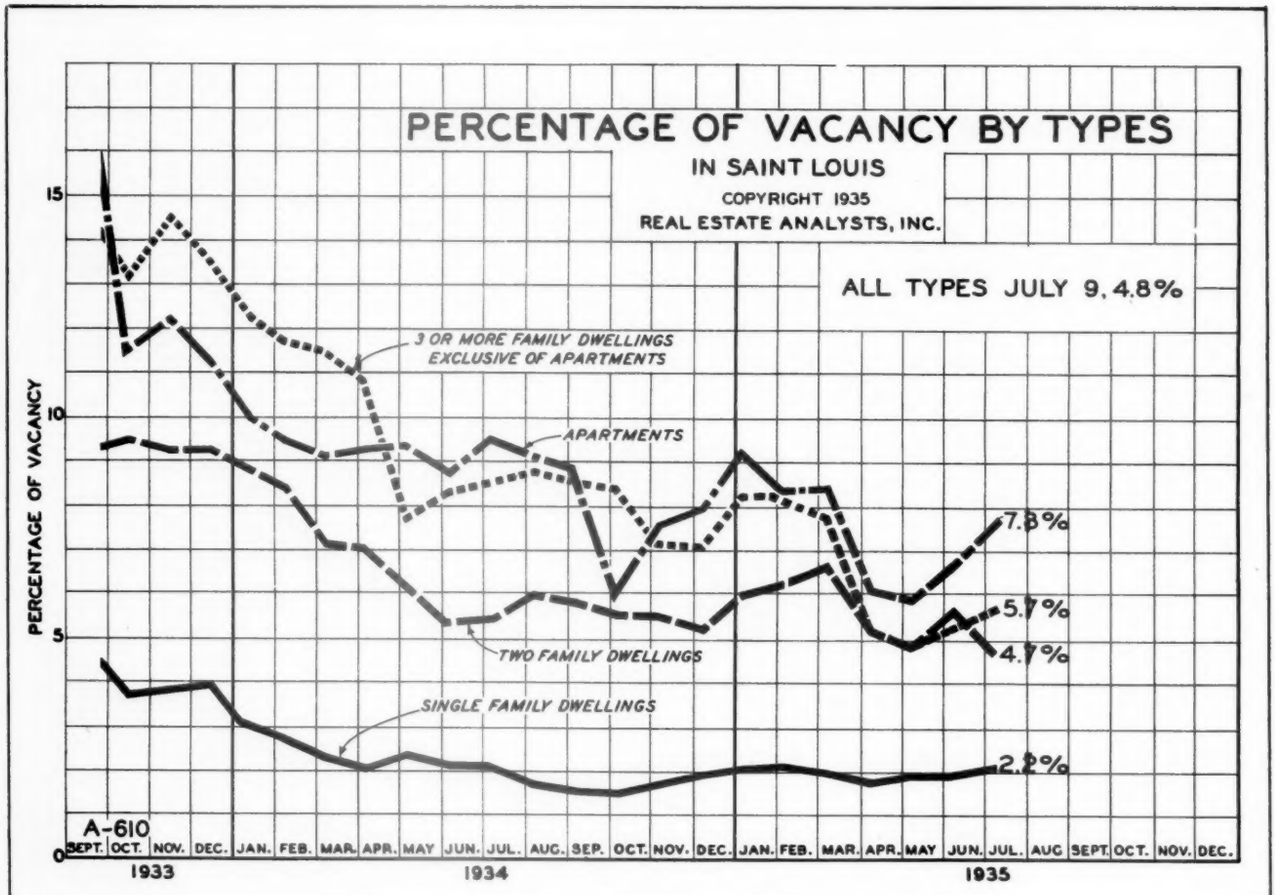


The few scattered facts we have presented in this study of the farm situation are hardly sufficient for any far-reaching conclusions. However, the following tentative opinions are advanced:

1. Prices of agricultural products will probably show an upward trend for several years, interrupted for short periods from time to time. Increased net income per acre will increase the value of farm lands.

2. Forced sales will probably continue to drop

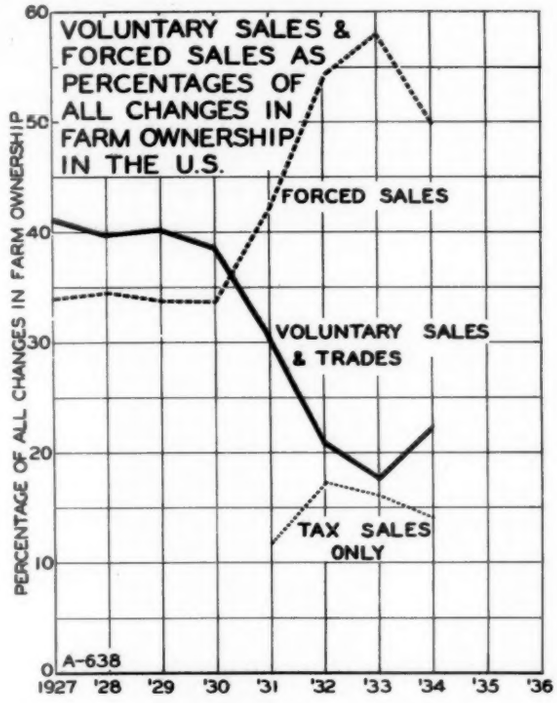
(continued on page 425)



TOTAL residential vacancy in Saint Louis remained at approximately the same level in July as established in June. From the chart above it will be seen that vacancy in single family dwellings has increased slightly. This is due to the fact that practically all new building has been confined to this type of unit and that the new buildings constructed have not been absorbed, but in the main are still vacant. The increase in apartment vacancy shown on the chart is clearly seasonal. The fact that many school teachers occupy small efficiency apartments and spend their vacations outside of Saint Louis contributes to the increase in apartment vacancy Saint Louis experiences each year at this time.

Month	Vacancy	%	Absorption
November '32	28,207	12.8	
September '33	23,354	10.4	894
October	22,460	10.0	2,010
November	20,450	9.1	-900
December	21,350	9.5	1,102
January '34	20,248	9.1	1,598
February	18,650	8.3	1,100
March	17,550	7.8	900
April	16,650	7.4	1,950
May	14,700	7.5	1,200
June	13,500	6.0	-500
July	14,000	6.3	0
August	14,000	6.3	400
September	13,600	6.1	1,100
October	12,500	5.6	400
November	12,100	5.4	0
December	12,100	5.4	-1800
January '35	13,900	6.2	0
February	13,900	6.2	300
March	13,600	6.1	3,670
April	9,930	4.5	180
May	9,750	4.4	-950
June	10,700	4.8	0
July	10,700	4.8	
Absorption since Nov., 1932			17,505

(continued from page 423)
rather rapidly during the next few years, and voluntary sales of farm properties will increase.

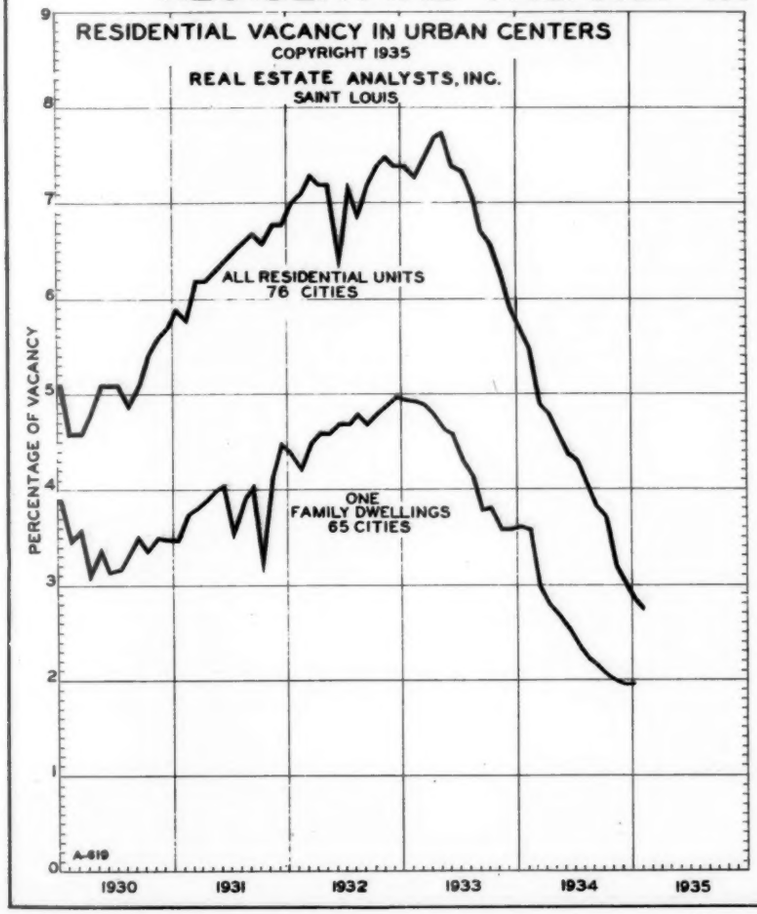

VOLUNTARY SALES & FORCED SALES AS PERCENTAGES OF ALL CHANGES IN FARM OWNERSHIP IN THE U.S.
FORCED SALES
VOLUNTARY SALES & TRADES
TAX SALES ONLY
PERCENTAGE OF ALL CHANGES IN FARM OWNERSHIP
A-638
1927 '28 '29 '30 '31 '32 '33 '34 '35 '36

3. The constant tendency shown by a number of these charts for prices of farm lands to increase faster than agricultural product prices increased cannot be expected to continue at the same rate. The tremendous road building programs undertaken during the past fifteen years and greatly accelerated during the depression are about complete. Further net dollar gains per acre due to increased use of labor saving machinery will not equal those already made.

4. Farm lands were greatly inflated in price due to the tremendous export demand during the War. Many cases are on record where farmers borrowed money at 6% to buy lands which, even though the 1920 prices had continued, could not possibly have netted more

(continued on page 427)

RESIDENTIAL VACANCY IN URBAN CENTERS



THE chart to the left shows a composite study of residential vacancy based on vacancy surveys made in principal cities. This chart was printed in May complete only through June of 1934. Additional surveys have been received since which have enabled us to continue it to February, 1935.

The rapid absorption of residential vacancy in most urban centers in spite of the limited business recovery has been one of the most surprising developments of the recovery period.

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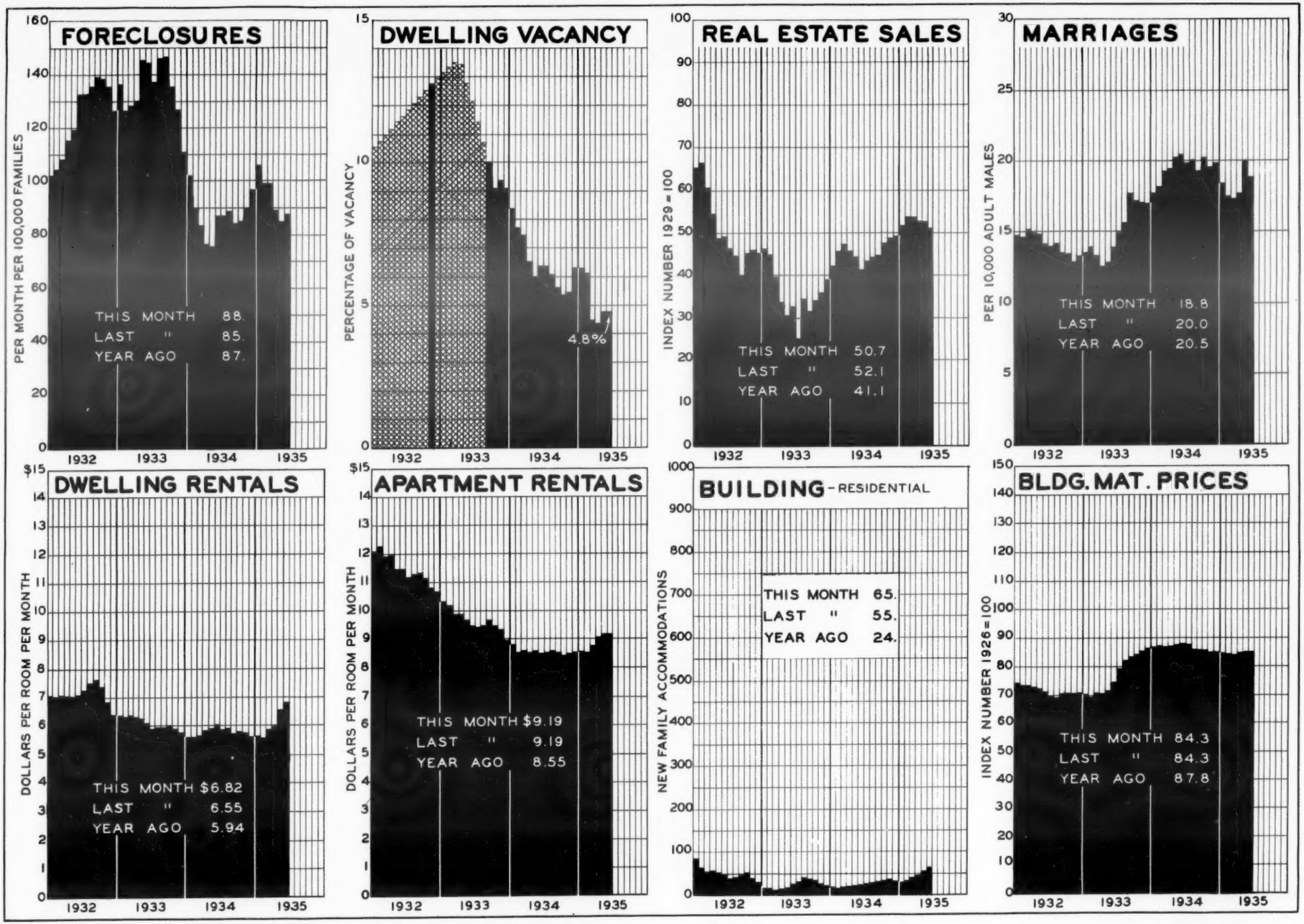

FORECLOSURES
PER MONTH PER 100,000 FAMILIES
THIS MONTH 88.
LAST " 85.
YEAR AGO 87.
DWELLING VACANCY
PERCENTAGE OF VACANCY
4.8%
REAL ESTATE SALES
INDEX NUMBER 1929 = 100
THIS MONTH 50.7
LAST " 52.1
YEAR AGO 41.1
MARRIAGES
PER 10,000 ADULT MALES
THIS MONTH 18.8
LAST " 20.0
YEAR AGO 20.5
DWELLING RENTALS
DOLLARS PER ROOM PER MONTH
THIS MONTH $6.82
LAST " 6.55
YEAR AGO 5.94
APARTMENT RENTALS
DOLLARS PER ROOM PER MONTH
THIS MONTH $9.19
LAST " 9.19
YEAR AGO 8.55
BUILDING - RESIDENTIAL
NEW FAMILY ACCOMMODATIONS
THIS MONTH 65.
LAST " 55.
YEAR AGO 24.
BLDG. MAT. PRICES
INDEX NUMBER 1926 = 100
THIS MONTH 84.3
LAST " 84.3
YEAR AGO 87.8
1932
1933
1934
1935

(continued from top of page 425)
than 4% after paying taxes and depreciation on buildings. The greater part of this inflation has now been washed out, as shown by the chart at the bottom of page 423. As we can no longer expect the export volume of the war period, we believe that the coming inflation will affect rural acreage to a lesser extent than it will urban property.

5. There has been a definite trend from the farm to the city for more than 100 years (see pages 292-294, the Real Estate Analyst, August, 1934). This trend has been interrupted during the depression by the economic distress prevailing in urban centers. We believe, however, that it will be resumed during the next few years and that the "back to the farm" movements will collapse as from three to four million people leave the farms to return to the cities.

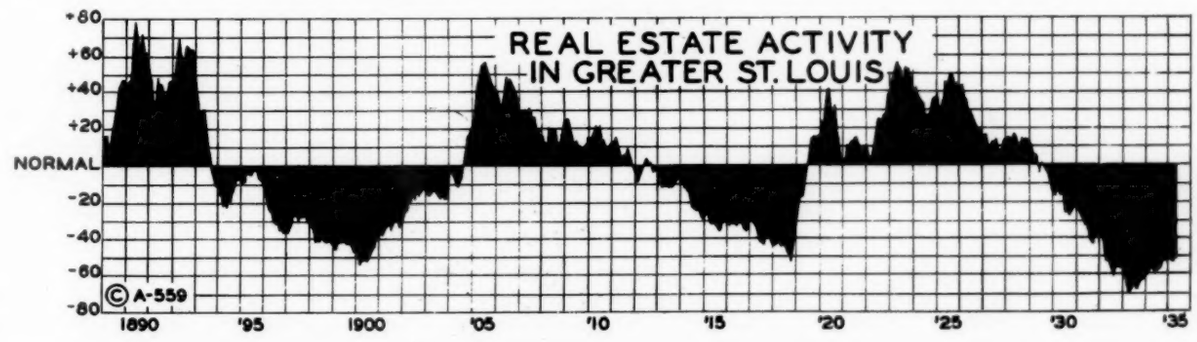
6. Real Estate Analysts, Inc., as a result of the foregoing conclusions, believes that well-selected farm real estate will increase materially in value during the next five years, but it does not believe that the increase in this type of property will equal the increase which can be expected for improved urban property.

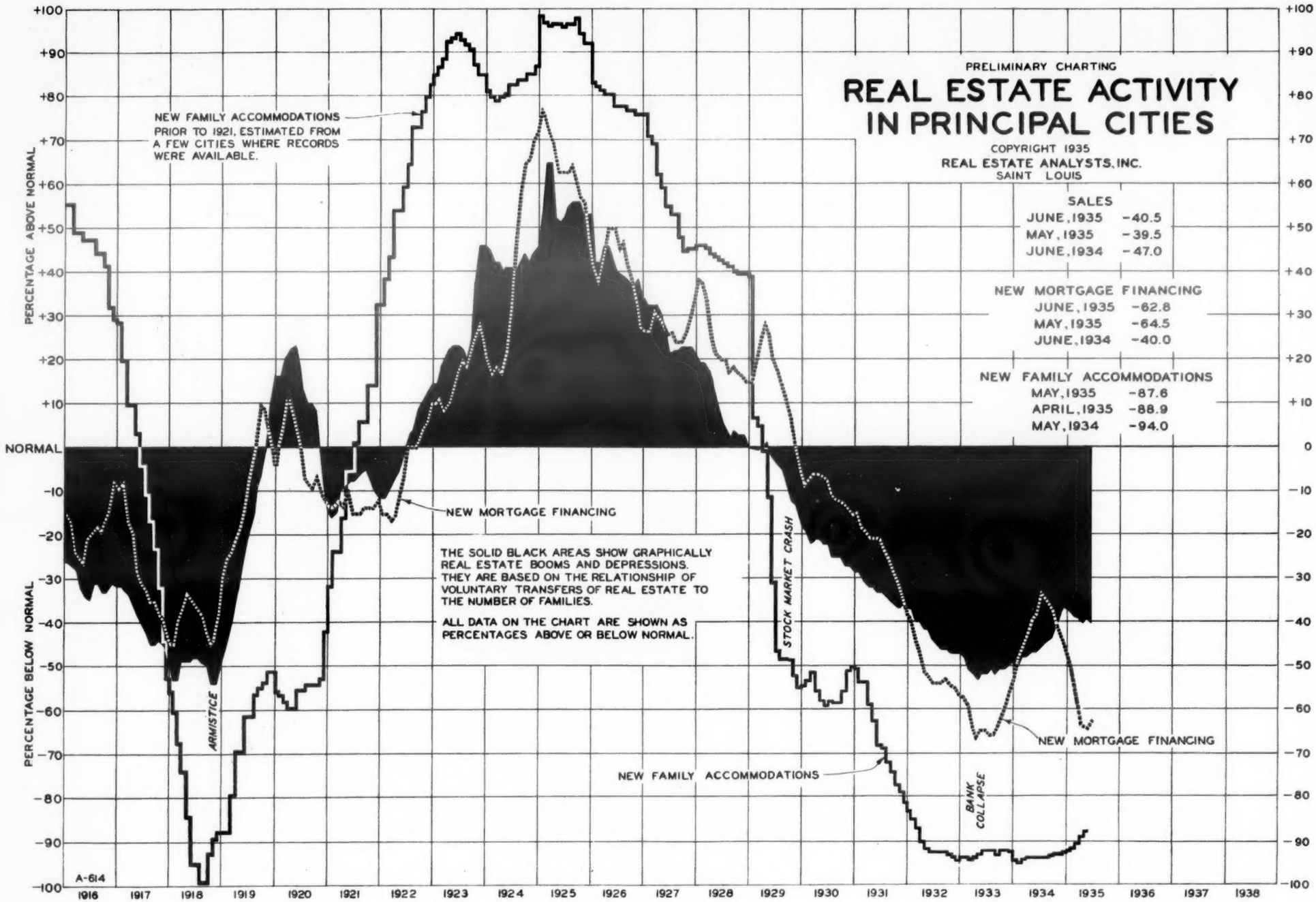
REAL ESTATE ACTIVITY

THE chart on the back page of this issue is based on figures received regularly by air mail from twenty-four metropolitan areas comprising in all, one hundred seventy-five cities of from five thousand to more than three million population. The black areas indicate booms and depressions as measured by brokerage activity. The dotted line shows the fluctuations in the number of new mortgages recorded; and the black line, the fluctuations in the number of new family accommodations provided by all new building. All data on the chart are shown as percentages above or below normal.

It should be kept in mind that the cycles shown on this chart have been continuing in fairly regular sequence for at least a hundred years. The cycles of real estate activity as they have occurred in Saint Louis during the past forty-six years are shown in the chart below.

The charts on the opposite page, with the exception of the one on building material prices, show the various factors we are studying in Greater Saint Louis. A precise study which is constantly made of all factors affecting real estate in a single representative community is often of greater value in determining the sequence of events in collapse and recovery than a general study of the entire country.




PRELIMINARY CHARTING
REAL ESTATE ACTIVITY IN PRINCIPAL CITIES
COPYRIGHT 1935
REAL ESTATE ANALYSTS, INC.
SAINT LOUIS
SALES
JUNE, 1935 -40.5
MAY, 1935 -39.5
JUNE, 1934 -47.0
NEW MORTGAGE FINANCING
JUNE, 1935 -62.8
MAY, 1935 -64.5
JUNE, 1934 -40.0
NEW FAMILY ACCOMMODATIONS
MAY, 1935 -87.6
APRIL, 1935 -88.9
MAY, 1934 -94.0
NEW FAMILY ACCOMMODATIONS PRIOR TO 1921, ESTIMATED FROM A FEW CITIES WHERE RECORDS WERE AVAILABLE.
NEW MORTGAGE FINANCING
THE SOLID BLACK AREAS SHOW GRAPHICALLY REAL ESTATE BOOMS AND DEPRESSIONS. THEY ARE BASED ON THE RELATIONSHIP OF VOLUNTARY TRANSFERS OF REAL ESTATE TO THE NUMBER OF FAMILIES.
ALL DATA ON THE CHART ARE SHOWN AS PERCENTAGES ABOVE OR BELOW NORMAL.
ARMISTICE
STOCK MARKET CRASH
BANK COLLAPSE
NEW MORTGAGE FINANCING
NEW FAMILY ACCOMMODATIONS
PERCENTAGE ABOVE NORMAL
PERCENTAGE BELOW NORMAL
NORMAL
+100 +90 +80 +70 +60 +50 +40 +30 +20 +10 0 -10 -20 -30 -40 -50 -60 -70 -80 -90 -100
1916 1917 1918 1919 1920 1921 1922 1923 1924 1925 1926 1927 1928 1929 1930 1931 1932 1933 1934 1935 1936 1937 1938
A-614